



Internal Audit Report

**Stadium District
July 2003**



Audit Team Members

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Jefferson Wells International



Maricopa County

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July 31, 2003

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We engaged Jefferson Wells International to perform a review of the Maricopa County Stadium District. This audit was performed in accordance with the annual audit plan approved by the Board of Supervisors.

During our review, we found that rental car surcharge revenue is effectively monitored through both internal and external controls. We also found that controls over one-time event revenue will be improved in FY 2003 by making the review part of the annual independent financial audit.

Within this report you will find an executive summary, specific information on the areas reviewed, and the Stadium District's response to our recommendations. We have reviewed this information with the Director and appreciate the excellent cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Car Rental Surcharge Revenue (Page 7)

The major portion of the Stadium District's revenue – rental car surcharges – cannot be directly validated to rental car company records. The Stadium District relies on alternative controls such as an annual independent financial audit, internal budgetary monitoring, periodic Department of Revenue (DOR) audits, and a special CY 2002 DOR audit. The Stadium District should continue to monitor surcharge revenue through alternative means.

One-Time Event Revenue (Page 9)

The Stadium District did not complete an audit of the booking company's records pertaining to one-time events held in Bank One Ballpark in FY 2002. However, the audit of booking company records has been integrated into the annual independent financial audit beginning in FY 2003 that will include both FY 2002 and FY 2003 booking records. The Stadium District should ensure the booking company provides required revenue records, and the CPA's audit to the level of detail necessary.

Introduction

Background

The Maricopa County Stadium District was formed through action of the Maricopa County Board of Supervisors in September 1991 pursuant to Title 48, Chapter 26, Arizona Revised Statutes. The County Board of Supervisors function as the Board of Directors for the Stadium District, with the County Administrative Officer serving as the Executive Director. The Stadium District is a component unit of Maricopa County. Component units are legally separate entities for which the County is considered to be financially accountable.

The Stadium District and the County have the same geographic boundaries. The purposes of the Stadium District are to:

- Promote major league baseball spring training in the County through the development of new, and the improvement of existing, baseball training facilities
- Construct and oversee the operation and maintenance of a major league baseball stadium

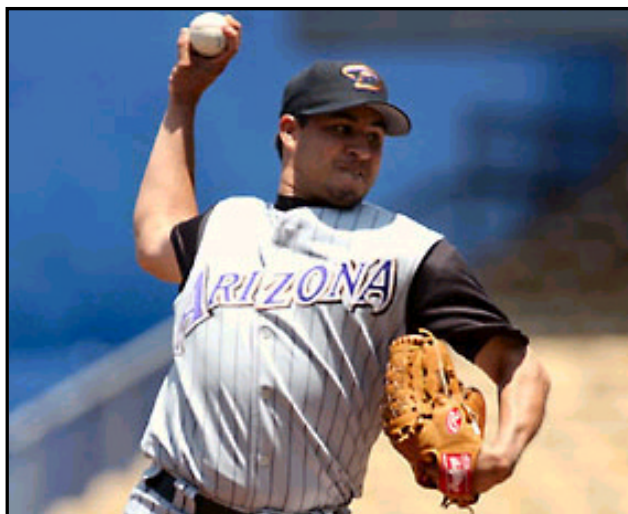
The first purpose in creating the Stadium District was to enhance and promote major league baseball spring training in the County, through development of new, and the improvement of existing, baseball training facilities.



Nine Major League Baseball Teams Call the County Home for Spring Training

To accomplish this purpose, the Stadium District was given statutory authority to issue special obligation bonds to provide financial assistance for the development and improvement of baseball training facilities located within the County. Nine major league baseball teams hold spring training in the County as part of the Cactus League.

The Stadium District's second purpose was to construct and oversee the operation of a major league baseball stadium. On February 17, 1994, the Stadium District entered into an agreement with the Arizona Professional Baseball Team Limited Partnership (the "Team") to provide financing for a portion of acquisition and construction costs of a new major league baseball stadium. The stadium named Bank One Ballpark (BOB), home of the Arizona Diamondbacks, opened in 1998.



Bank One Ballpark is Home to the World Champion Arizona Diamondbacks

The Stadium District has the authority to issue special obligation bonds for the operation and maintenance of BOB, or the Cactus League. Stadium District Revenue Bonds are special obligations of the Stadium District. The bonds do not constitute a debt, or a pledge of faith, of the County, State of Arizona or any other political subdivision. Payment of the bonds is enforceable solely out of pledged revenues of the Stadium District. The Stadium District has outstanding, bonds issued for the Cactus League, but not for BOB.

Statutory Authority

The Stadium District's operational authority is derived through the following Arizona Revised Statutes:

ARS	Description
§48-4200 through §48-4255	County Stadium District
§48-251 through §48-253	Reports by Districts
§11-251.06	Reimbursement for County Services to Special Districts
§11-952	Intergovernmental Agreements
§34-221 through §34-226	Construction Contracts

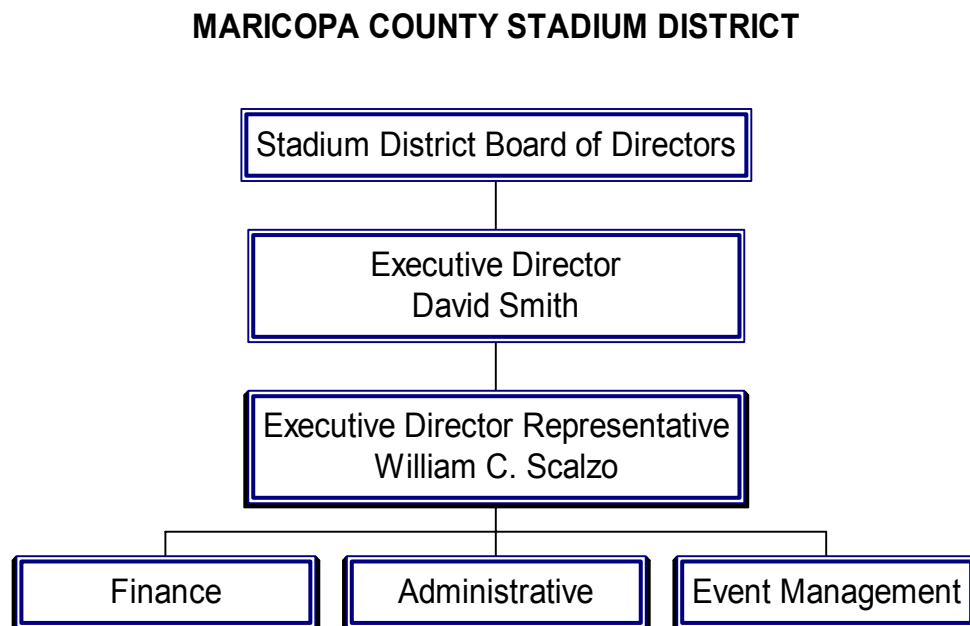
Mission, Goals, and Performance Measures

The mission of the Stadium District is to provide fiscal resources for Cactus League Facilities and asset management of Bank One Ballpark for the community and visitors to Maricopa County so they can attend Cactus League spring training, Major League Baseball games, and other entertainment events in state-of-the-art, well-maintained facilities. The goals of the Stadium District are as follows:

- Increase financial reserves beginning in FY 2003 by \$2 Million per year for new Cactus League facilities and existing facility renovation
- Increase revenue from the use of Bank One Ballpark for non-baseball activities by 10 percent per fiscal year
- Reduce staff turnover to less than 25 percent per year and increase staff's operational and historical knowledge
- Increase County employee and public participation by 5 percent in programs and events offered by the Stadium District
- Ensure the future financial stability of the Stadium District and Bank One Ballpark
- Increase entrepreneurial revenue by one source per year

Organizational Structure

The Stadium District is authorized four budgeted positions, which includes the Chief Financial Officer, Administrative Manager, Administrative Assistant III, and an Accountant. The chart below depicts the Stadium District's organizational structure.



Operating Budget

The Stadium District's FY 2002 budget projected revenues of \$11.6 million and expenditures of \$11.5 million. The Stadium District's major revenue source comes from a statutory rental car surcharge. The surcharge is \$2.50 on each lease or rental of a motor vehicle licensed for hire regardless of whether the vehicle is licensed in the State of Arizona. The surcharge is calculated and collected by the Arizona Department of Revenue, which then forwards revenues collected to the Stadium District.

Other revenues are derived from contracts related to the use of Bank One ballpark for one-time concerts and events. One of the Stadium District's major uses of funds, over the first years of its existence, related to construction contracts. Although the district has expenses, it does not maintain a checkbook and relies on the Department of Finance to process warrants.

Scope and Methodology

The objectives of this audit were to determine if:

- The Stadium District complies with existing contract terms by reviewing all material long-term contracts, including closed construction contracts
- Controls are effective to ensure that programs meet goals and objectives
- Financial, budget, and accounting data is valid and reliable
- The Stadium District properly safeguards resources

Within our audit scope, we reviewed two of five construction contracts and found no exceptions. We reviewed financial/accounting, and program controls through the completion of Internal Control Questionnaires and found no material exceptions. Two issues came to our attention concerning Stadium District revenue sources and are discussed in detail in the body of this report.

This audit was performed in accordance with generally accepted government auditing standards.

Department Reported Accomplishments

Stadium District Management provided the following information for inclusion in this report.

MARICOPA COUNTY STADIUM DISTRICT ACCOMPLISHMENTS

FY 2002

- Booking manager entered into 5-year agreements with Insight for the collegiate football bowl game and Pace for the motor sports events
- District events produced a 55 % increase in revenue over the prior year, and a 62 % increase in the number of participants. These events generated \$879,000 during FY 2001 - 2002
- Refinanced all Cactus League debt to achieve a lower interest rate
- Initiated State legislation so District funds can be invested for a longer period of time, which can increase the return on investments. Also included was a provision that the Board can appoint the County CFO as the District Treasurer, if desired
- Prepaid \$6 million in principal on a loan held by the team
- Assisted in the prevention of a baseball strike

FY 2003

- Closed the Architectural, Construction Management, and all remaining professional services and construction contacts related to the design and construction of Bank One Ballpark
- Closed the Construction Trust Account
- Increased Bank One Ballpark Reserve Accounts by \$2,547,752
- Partnered with the City of Phoenix for the construction of a pedestrian bridge across the railroad tracks on 4th Street from the BOB parking Garage to the Ballpark to eliminate the potential for safety risk. This will become a Stadium District Asset upon acceptance of the construction

Issue 1 Rental Car Surcharge Revenue

Summary

The major portion of the Stadium District's revenue – rental car surcharges – cannot be directly validated to rental car company records. The Stadium District relies on alternative controls such as an annual independent financial audit, internal budgetary monitoring, periodic Department of Revenue (DOR) audits, and a special CY 2002 DOR audit. The Stadium District should continue to monitor surcharge revenue through alternative means.

ARS Requirements

ARS 42-6102 governs the administration of a surcharge imposed under this section that is reported to DOR. Each month the State Treasurer remits to the Stadium District the net revenues collected during the preceding month. The County Treasurer deposits the monies in the County Stadium District fund.

Audit Objective

We (Internal Audit) are concerned anytime a significant County revenue source is not effectively validated to source documents or source data. We wanted to determine if controls were in place to provide reasonable assurance that the County is receiving all revenue to which it is entitled. A major portion of the Stadium District's revenue comes from the rental car surcharge of \$2.50 per rental contract. The surcharge is calculated and collected by DOR, which forwards collections to the Stadium



A Major Stadium District Revenue Source is a Surcharge on Car Rentals

District. The Stadium District cannot verify surcharge revenue directly to rental company records. The Stadium District relies on monthly spreadsheets provided by DOR to establish the number of rental car contracts written, and the revenue due each month.

Controls in Place

Although there is no statutory provision that would allow the Stadium District to audit rental car company records, several compensating controls are in place. We think the controls are the best method available under the circumstances for monitoring surcharge revenue, and provide

reasonable assurance that the County is receiving all material revenue to which it is entitled. Controls in place include:

- Annual independent financial audit by an independent Certified Public Accountant
- Internal monitoring of budget-to-actual performance and year-over-year comparisons
- Regular DOR audits of state revenue sources

In addition, a special audit of rental car surcharge revenue was requested by the state Tourism and Sports Authority (TSA) and performed by DOR in calendar year 2002. The DOR auditors specifically examined car rental surcharge calculations and remittances in addition to their normal audit procedures. DOR noted no exceptions.

Recommendation

Stadium District should:

- A. Continue to monitor surcharge revenue through the methods available.
- B. Consider periodically requesting DOR to perform a special audit of surcharge revenue, in addition to their normal procedures.

Issue 2 One-Time Event Revenue

Summary

The Stadium District did not complete an audit of the booking company's records pertaining to one-time events held in Bank One Ballpark in FY 2002. However, the audit of booking company records has been integrated into the annual independent financial audit beginning in FY 2003 that will include both FY 2002 and FY 2003 booking records. The Stadium District should ensure the booking company provides required revenue records, and the CPA's audit to the level of detail necessary.



The Annual Supercross Event is held at Bank One Ballpark

Audit Requirements

The Maricopa County Stadium District's policy requires an annual audit of the revenue from one-time events held at Bank One Ballpark. In addition, the AICPA Government Accounting and Financial Reporting Manual suggests that effective controls should be in place for the billing and collection of miscellaneous and secondary revenues.

FY 2002 Event Revenue

The Stadium District did not complete an audit of revenue for one-time events held in Bank One Ballpark for FY 2002. The most recent audit performed by Stadium District personnel covered events held through March 2001. Stadium District personnel indicated that a 2002 audit was begun, but was not completed due to difficulties with booking company staff. They also stated that the level of detail provided by the event booking company did not permit an effective validation of revenue.

These issues were addressed through an addendum to the booking company agreement executed in April 2003. The addendum requires the booking company to provide a Settlement Summary of each event's revenue and expenses within 60 days following the event. The Stadium District

can engage an outside auditing firm to perform an audit of event revenue, subsequent to each event or at a time of the Stadium District's choosing. As part of the Stadium District's FY 2003 independent financial audit, the auditors will review both FY 2002 and FY 2003 revenue.

Recommendation

Stadium District should ensure that:

- A. The booking company provides settlement reports within 60 days following each event.
- B. Outside auditors test to a level of detail sufficient to ensure revenue due was received.

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District Response

**AUDIT RESPONSE
MARICOPA COUNTY STADIUM DISTRICT
JULY 25, 2003**

Issue #1:

The major portion of the Stadium District's revenue – rental car surcharges – cannot be directly validated to rental car company records. The Stadium District relies on alternative controls such as an annual independent financial audit, internal budgetary monitoring, periodic Department of Revenue (DOR) audits, and a special CY 2002 DOR audit. The Stadium District should continue to monitor surcharge revenue through alternative means.

Response: Concur.

Recommendation A: Continue to monitor surcharge revenue through the methods available.

Response: Concur, procedures are in place. The District will continue to monitor surcharge revenue through the methods available.

Target Completion Date: Ongoing

Benefits/Costs: Continuing to monitor the surcharge revenue through the methods available will provide reasonable assurance that the District is receiving all material revenue to which it is entitled.

Recommendation B: Consider periodically requesting DOR to perform a special audit of surcharge revenue, in addition to their normal procedures.

Response: Concur, procedures are in place. The District will periodically request that DOR perform a special audit of surcharge revenue.

Target Completion Date: Ongoing

Benefits/Costs: Periodically requesting DOR to perform a special audit of surcharge revenue will help provide assurance that the District is receiving all revenue to which it is entitled.

Issue #2:

The Stadium District did not complete an audit of the booking company's records pertaining to one-time events held in Bank One Ballpark in FY 2002. However, the audit of booking company records has been integrated into the annual independent financial audit beginning in FY 2003 that will include both FY2002 and FY 2003 booking records. The Stadium District should ensure the booking company provides required revenue records, and the CPA's audit to the level of detail necessary.

Response: Concur.

Recommendation A: The District should ensure that the booking company provides settlement reports within 60 days following each event.

Response: Concur, procedures are in place. The District will ensure that the booking company provides settlement reports within 60 days following each event.

Target Completion Date: Ongoing

Benefits/Costs: Ensuring that the booking company provides settlement reports within 60 days following each event will help provide assurance that the District is receiving all revenue to which it is entitled.

Recommendation B: The District should ensure that the outside auditors test to a level of detail sufficient to ensure revenue due was received.

Response: Concur, procedures are in place. The District will ensure that the outside auditors test to a level of detail sufficient to ensure revenue due is received.

Target Completion Date: Ongoing

Benefits/Costs: Ensuring that the outside auditors test to a level of detail sufficient to ensure revenue due was received will help provide assurance that the District is receiving all revenue to which it is entitled.

Approved By :		<u>7/25/03</u>
	Department Head/Chief Officer	Date
		<u>7/26/03</u>
	County Administrative Officer	Date